

Iowa Income Tax Credits Related to the Use, Sale, and Production of Fuel

Motor Vehicle Fuel Tax Credit– Iowa Code section 422.110

An income tax credit is allowed for the amount of Iowa motor fuel tax paid relating to certain purchases made by individuals and corporations. This credit is allowed for taxpayers who do not have a motor fuel refund permit. This credit has been in place since 1975. The credit is claimed on form IA 4136, and this is a refundable credit.

Ethanol Blended Gasoline Tax Credit – Iowa Code sections 422.11C and 422.33(11)

Starting in 2002, a tax credit is available to service stations at which more than 60% of the total gasoline sold is ethanol blended gasoline. This credit will expire on December 31, 2008. The credit is equal to two and a half cents for each gallon sold in excess of 60%. The credit is computed on form IA 6478. This is a refundable credit.

E85 Gasoline Promotion Tax Credit – Sections 422.11O and 422.33(11B)

Effective for E85 gasoline sold on or after January 1, 2006, a tax credit is available to retail dealers of gasoline who sell E85 gasoline. The credit is available in the following amounts:

Calendar years 2006, 2007 and 2008	25 cents
Calendar years 2009 and 2010	20 cents
Calendar year 2011	10 cents
Calendar year 2012	9 cents
Calendar year 2013	8 cents
Calendar year 2014	7 cents
Calendar year 2015	6 cents
Calendar year 2016	5 cents
Calendar year 2017	4 cents
Calendar year 2018	3 cents
Calendar year 2019	2 cents
Calendar year 2020	1 cent
Calendar year 2021 and subsequent	0 cents

A retail dealer of gasoline will be able to claim the E-85 gasoline promotion tax credit even if the dealer claims an ethanol blended gasoline tax credit for the same tax year for the same ethanol gallons sold for 2006-2008. In addition, a taxpayer whose tax year ends before December 31, 2006 can claim the credit for gasoline sold between January 1, 2006 and the end of the fiscal year. Any credit in excess of the tax liability is refundable. The credit can be claimed on Form IA 135.

Biodiesel Blended Fuel Tax Credit – Section 422.11P and 422.33(11C)

Effective January 1, 2006, an income tax credit is available to retail dealers who sell biodiesel blended fuel through motor pumps during the tax year. Of the total gallons on diesel fuel sold by the retail dealer during the tax year, fifty percent or more must be biodiesel fuel to be eligible for the tax credit for tax years beginning prior to January 1, 2009. For tax years beginning on or after January 1, 2009, the credit is computed on a site-by-site basis, so any site that met the fifty percent test would be eligible for the tax credit. The tax credit applies to biodiesel blended fuel formulated with a minimum percentage of two percent by volume of biodiesel, if the formulation meets the standards of Iowa Code section 214A.2

The tax credit equals three cents multiplied by the total number of gallons of biodiesel blended fuel gallons sold during the retail dealer's tax year. For retail dealers of gasoline whose tax year ends before December 31, 2006, the retail dealer may compute the tax credit on the gallons of biodiesel blended fuel sold during the period from January 1, 2006 through the end of the tax year, provided that 50 percent of all diesel fuel sold during that period was biodiesel. This credit will expire on January 1, 2012, and any credit in excess of the tax liability is refundable. The credit can be claimed on Form IA 8864.

Ethanol Promotion Tax Credit – Section 422.11N and 422.33(11A)

Effective January 1, 2009, an ethanol promotion tax credit is available to retail dealers of ethanol blended gasoline which will replace the current ethanol blended gasoline tax credit. The amount of the tax credit is based on the pure amount of ethanol gallons sold (For example, 10 gallons of E-10 equals 1 gallon of pure ethanol). The credit is repealed on January 1, 2021.

The amount of the tax credit depends on whether the retail dealer attains a biofuel threshold standard, and how many gallons of motor fuel are sold in a year. The biofuel threshold standards for retail dealers who sell more than 200,000 gallons in a year, compared with the biofuel threshold standards for dealers who sell 200,000 gallons or less in a year, are set forth below:

<u>Calendar Year</u>	<u>Percentage more than 200,000</u>	<u>Percentage 200,000 or less</u>
2009	10%	6%
2010	11%	6%
2011	12%	10%
2012	13%	11%
2013	14%	12%
2014	15%	13%
2015	17%	14%
2016	19%	15%
2017	21%	17%
2018	23%	19%
2019	25%	21%
2020	25%	25%

The credit is calculated separately for each retail motor fuel site. For any year in which the retail dealer has met the threshold, the credit is 6 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by two percent or less, the credit is 4 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by more than two percent but not more than four percent, the credit is 2 ½ cents of each gallon of pure ethanol sold. If the retail dealer misses the threshold by four percent or more, then no credit is allowed.

The retail dealer determines the biofuel percentage by summing the pure ethanol gallons and the pure biodiesel gallons sold during the calendar year, and dividing this sum by the total gasoline gallons sold during the calendar year. While the biodiesel gallons are included in the computation of the biofuel percentage to determine if the threshold is met, only the pure ethanol gallons sold are used in determining the amount of the credit.

EXAMPLE: A retail dealer only operates one motor fuel site. The number of gallons of gasoline sold at this site in 2009 equals 100,000 gallons. This consisted of 5,000 gallons of E-85, 80,000 gallons of E-10 and 15,000 gallons not containing ethanol. The dealer also sold 15,000 gallons of diesel fuel at this site during 2009, of which 5,000 gallons was B2 (2% biodiesel). The pure ethanol gallons is 12,250 (5,000 times 85% equals 4,250. 80,000 times 10% equals 8,000. 4,250 plus 8,000 equals 12,250). The pure biodiesel gallons sold is 100, or 5,000 times 2%. The total of 12,250 and 100, or 12,350, is divided by the total gasoline gallons sold of 100,000 to arrive at a biofuel percentage of 12.35%. Since this exceeds the 6% threshold for a dealer selling less than 200,000 gallons, the credit is 6.5 cents times 12,250, or \$796.

A retail dealer of gasoline will be able to claim the ethanol promotion tax credit even if the dealer claims an E-85 gasoline promotion tax credit for the same tax year for the same ethanol gallons sold. For retail dealers of gasoline whose tax year is not on a calendar year basis, the retail dealer may compute the tax credit on the gallons of pure ethanol sold during the year using the applicable credit amounts as shown above. Any credit in excess of the tax liability is refundable. This credit is claimed on form IA 137.

High Quality Job Creation Program – Section 15.329

Effective July 1, 2005, the High Quality Job Creation Program has replaced the New Jobs and Income Program and the New Capital Investment Program. This will affect tax years ending on or after July 1, 2005. These businesses must still be approved by the Department of Economic Development to qualify for the tax credits. The amount of tax credits is dependent on the number of jobs created and the qualifying investment made. The new jobs must pay at least 130% of the average county wage to be eligible for these tax credits. The tax credits are as follows:

Pay 130% - 159% of average county wage

- Number of new jobs is zero
 - Investment less than \$100,000 – 1% Investment tax credit
 - Investment of \$100,000 – \$499,999 – 1% Investment tax credit and sales tax refund
 - Investment of \$500,000 or more – 1% Investment tax credit, sales tax refund and additional R & D credit

- Number of new jobs is 1-5
Investment less than \$100,000 – 2% Investment tax credit
Investment of \$100,000 – \$499,999 – 2% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 2% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 6-10
Investment less than \$100,000 – 3% Investment tax credit
Investment of \$100,000 – \$499,999 – 3% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 3% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 11-15
Investment less than \$100,000 – 4% Investment tax credit
Investment of \$100,000 – \$499,999 – 4% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 4% Investment tax credit, sales tax refund and additional R & D credit
- Number of new jobs is 16 or more
Investment less than \$100,000 – 5% Investment tax credit
Investment of \$100,000 – \$499,999 – 5% Investment tax credit and sales tax refund
Investment of \$500,000 or more – 5% Investment tax credit, sales tax refund and additional R & D credit

Pay 160% or more of average county wage and investment is at least \$10 million

- Number of new jobs is 21-30
6% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 31-40
7% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 41-50
8% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 51-60
9% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption
- Number of new jobs is 61 or more
10% Investment tax credit, sales tax refund, additional R & D credit and local property tax exemption

The investment tax credit is amortized equally over a five year period, instead of the entire credit being available upon project completion. The investment tax credit in excess of the tax liability can be credited to the tax liability for the following seven years or until depleted, whichever occurs first.

The investment tax credit remains at 10% for both the enterprise zone program and the eligible housing enterprise zone program. However, the investment tax credit must be amortized over a five year period for the enterprise zone program for projects approved on or after July 1, 2005.

Investment Tax Credit– Iowa Code sections 15.333, 15.333A, 15E.193B(6), 15A.9(4), 422.11F, 422.33(12) and 422.60(5)

Starting in 1994, for taxpayer approved by the Iowa Department of Economic Development under the New Jobs and Income Program (through FY05), Enterprise Zone Program, Eligible Housing Enterprise Zone Program or Eligible Development Business Program (through FY04), an investment tax credit is available equal to 10% of the cost of machinery and equipment and improvements to real property. This is a nonrefundable credit, with a 7 year carryforward. The credit is claimed on form IA 3468.

Starting in July 2002, for businesses involved in value-added agricultural projects, any unused investment tax credit was eligible for a refund. The refund is capped at \$4 million per fiscal year, and cannot be claimed until the year following completion of the project. Starting in July 2005, projects involving biotechnology products are also included, along with value-added agricultural products, in the \$4 million of refundable credits for the enterprise zone and the high quality job creation program.

Starting in 2003, for the investment tax credit for eligible housing projects only, the credit can be transferred to another person or entity, if low-income housing credits under Section 42 of the Internal Revenue Code were used to help finance the housing project. Effective for projects beginning on or after July 1, 2005, the investment tax credit can be transferred if the housing development is located in a brownfield site or in a blighted area

Starting with projects approved on or after March 17, 2004, leased property is eligible for the investment tax credit. The leased property must involve a new building or major renovation, and cannot include an existing building. The credit is computed based on the annual base rent paid to a third-party developed for a period not to exceed ten years.

New Capital Investment Program– Iowa Code sections 15.385(4) – through FY05

Starting in 2003, an investment tax credit is allowed for businesses who create less jobs than under the New Jobs and Income Program. Instead of a 10% investment tax credit, these businesses received an investment tax credit between 1% and 5%, depending on the number of jobs created, as shown below:

0 jobs, but economic activity in Iowa is advanced	1% investment credit
1-5 jobs created	2% investment credit
6-10 jobs created	3% investment credit
11-15 jobs created	4% investment credit
16 or more jobs created	5% investment credit

These businesses are approved by the Iowa Department of Economic Development. This is a nonrefundable credit, with a 7 year carryforward. However, if these businesses are involved in value-added agricultural projects or biotechnology related processes, they can apply for a refund of unused investment credit, subject to the same \$4 million cap per fiscal year noted under “Investment Tax Credit.”